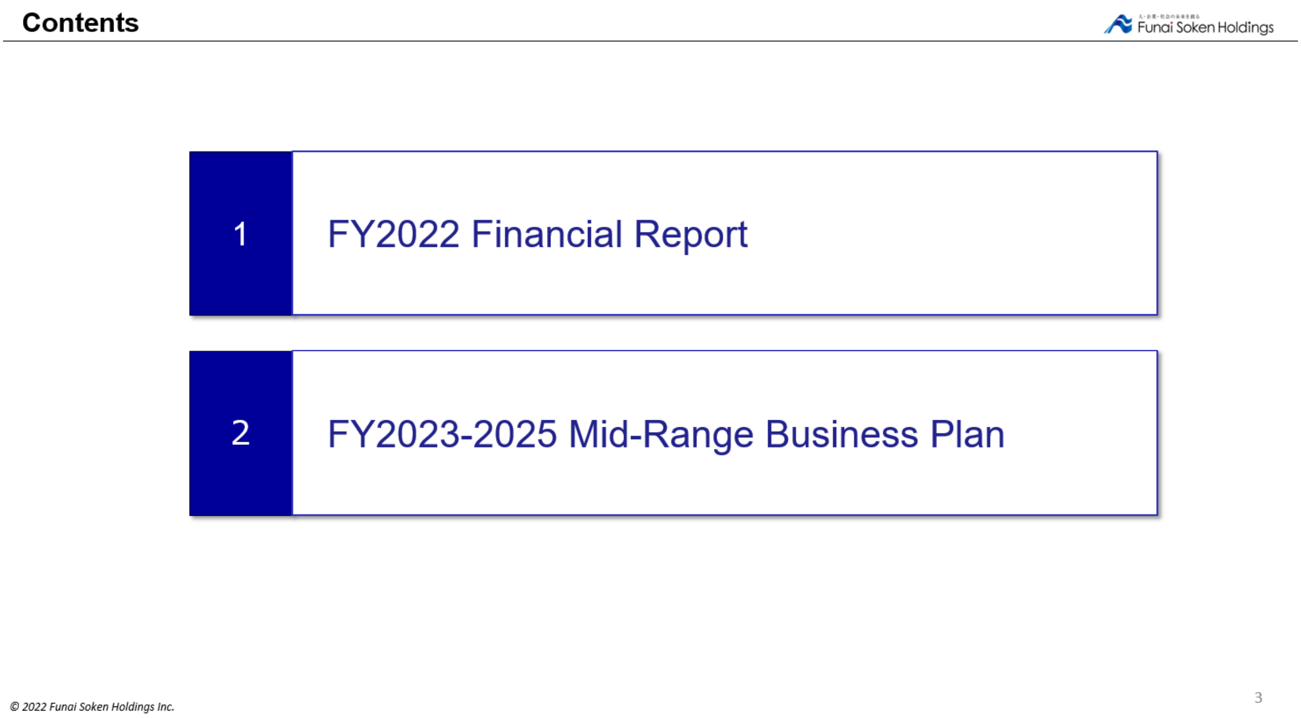
Funai Soken Holdings Incorporated

Financial Results Briefing for the Fiscal Year Ended December 2022

FY2023-2025 Mid-Range Business Plan Briefing

Presentation

Moderator: Funai Soken Holdings Incorporated would like to begin the presentation of financial results for the fiscal year ended December 31, 2022.



Nakatani: Hello, everyone. I am Nakatani, President and CEO of Funai Soken Holdings Incorporated. Thank you very much for your continued support of our group.

Today, I would like to report on the financial results for the fiscal year ended December 31, 2022, which we announced yesterday, and explain our mid-range business plan for the period from 2023 to 2025. Since time is limited, I will only give a summary of the financial results and then Saito of the Corporate Communication Office will give the rest of the report. After that, I will explain the new mid-range business plan.

I will also use excerpts from the explanatory materials, so please refer to the Company's website or contact the corporate communication office for details of the materials, and we will be happy to provide a separate explanation.

1. FY2022 Financial Report

Funai Soken Holdings

(1) Consolidated Income

- **Double-digit growth in both sales and income led to record performance and enabled us to achieve the targets of the 2020-2022 Mid-Range Business Plan.**

	FY12/21		FY12/22			Compared with forecast issued on Feb. 4, 2022	
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)	Amount (million yen)	Change (%)
Net sales	22,816	100.0	25,635	100.0	+12.4	25,300	+1.3
Operating income	6,358	27.9	7,100	27.7	+11.7	7,100	+0.0
Ordinary income	6,448	28.3	7,197	28.1	+11.6	7,150	+0.7
Net income attributable to owners of the parent	4,378	19.2	4,990	19.5	+14.0	4,800	+4.0

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I will now provide an overview of our financial results for the fiscal year ended December 2022.

First, I will explain the status of income. Net sales totaled JPY25,635 million, up 12.4% YoY. Operating income was JPY7,100 million, up 11.7% YoY. Ordinary income was JPY7,197 million, up 11.6% YoY. Net income for the current period was JPY4,990 million, up 14% YoY, and we achieved double-digit growth in both sales and income for the period, reaching a new record high. In addition, we were able to achieve the performance plan for the final year of the mid-range business plan.

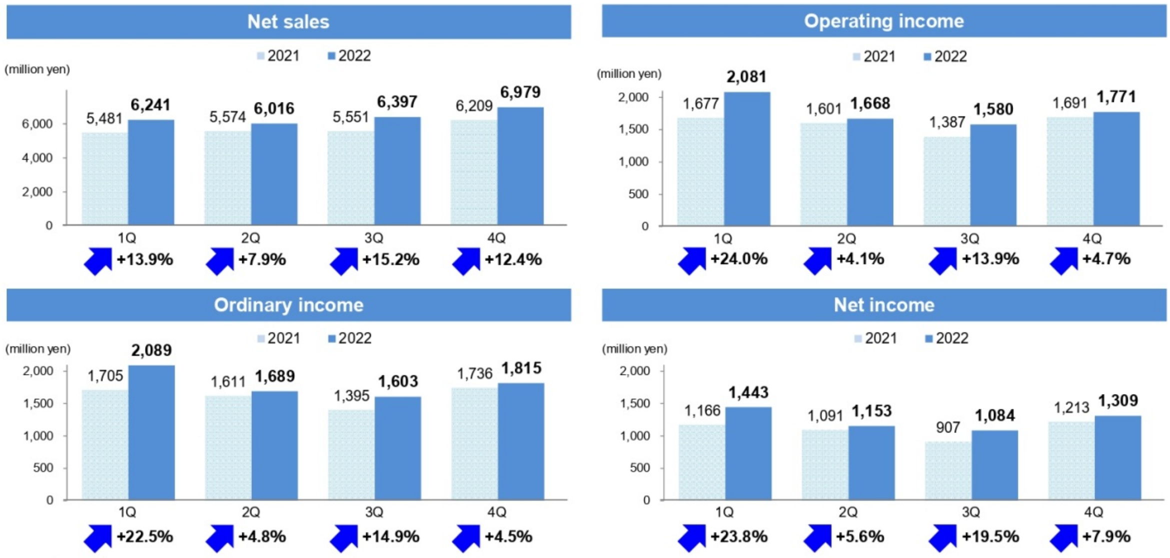
Now, Saito will continue with a detailed explanation from here on.

1. FY2022 Financial Report

Funai Soken Holdings

(2) Income by Quarter

- **Sales, operating income, ordinary income, and net income were up in all quarters.**



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Saito: Hello. Thank you for your continued support. I am Saito of Funai Soken Holdings. I will now present the details of the financial report for the fiscal year ended December 31, 2022.

This is a quarterly breakdown of the 2022 results. Although there were some fluctuations QoQ in 2022, we were able to increase sales and income in all quarters.

Looking at sales in more detail, in Q2, sales grew at a single-digit rate due to delays in Q1 seminar set-up and other factors, which caused some concern; however, we were able to cover this immediately and return to double-digit sales growth from Q3 onward.

Looking at incomes, operating income in Q4 grew at a single-digit rate relative to sales, but this was due to the fact that the Group as a whole paid out more bonuses for the current fiscal year than initially budgeted for expenses, and also due to the fact that recruitment activities were brought forward in preparation for growth in the current fiscal year and beyond, resulting in a large amount of recruitment expenses being recorded. In any case, we were able to end FY2022 generally as planned.

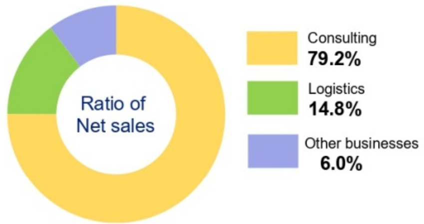
1. FY2022 Financial Report

Funai Soken Holdings

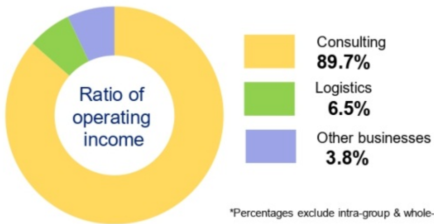
(3) Results of Operations by Segment

- **Sales and income were up in all segments.**
- **Among other businesses, solid performance drove increases in sales and income in the direct recruiting business.**

Net sales	FY 12/21 Amount (million yen)	FY 12/22 Amount (million yen)	FY 12/22 Change (%)
Consulting	18,544	20,314	+9.5
Logistics	2,922	3,778	+29.3
Other businesses	1,328	1,524	+14.8
(Intra-group & whole-group transactions)	21	17	–
Total	22,816	25,635	+12.4



Operating income	FY 12/21 Amount (million yen)	FY 12/22 Amount (million yen)	FY 12/22 Change (%)
Consulting	5,893	6,150	+4.4
Logistics	338	448	+32.3
Other businesses	-68	260	–
(Intra-group & whole-group transactions)	194	241	–
Total	6,358	7,100	+11.7



*Percentages exclude intra-group & whole-group transactions

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This slide shows the results of operations by segment, with all businesses reporting increases in both sales and income.

I will explain the management consulting business in more detail later, so let me first explain the logistics and other businesses.

As for the logistics business, in a nutshell, we were able to land steadily on the same trend we had been following up to Q3. Both the consulting and BPO divisions grew by more than 20%, resulting in a significant increase in sales and income.

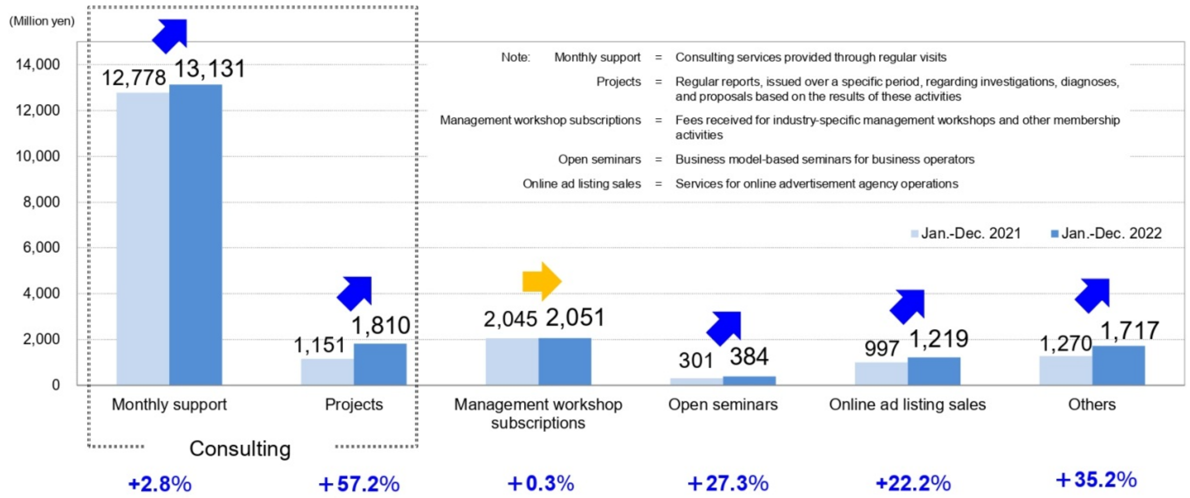
Next is the other businesses segment, which consists mainly of direct recruiting and contact center consulting businesses. The reason for the large increase in income is that HR Force, the former direct recruiting business included in the other businesses segment from this fiscal year, had an operating loss of approximately JPY120 million in 2021, but it was able to generate an operating profit of approximately JPY130 million in 2022.

Last year marked the fifth year since HR Force was established, and we are finally on track to return to profitability and are now able to turn into a company that generates operating income on a monthly basis. The company is expected to make a profitable contribution to the Group in the future.

In addition, Proseed, which operates contact center consulting services, also increased its operating income by JPY40 million in 2022 YoY, which means that other businesses as a whole were able to make a significant turnaround.

1. FY2022 Financial Report

(4) Results of Operations by Segment: Consulting—Sales by Service Category



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I will now report on the contents of our management consulting business, which is our core business. Here is a breakdown of management consulting business sales by business segment.

Here, too, there is not much difference from Q3 in terms of trends, but if we cut out Q4, just from October to December, monthly support services increased by about plus JPY85 million. The largest growth was in projects, with M&A sales increasing by about JPY170 million over the same quarter last year.

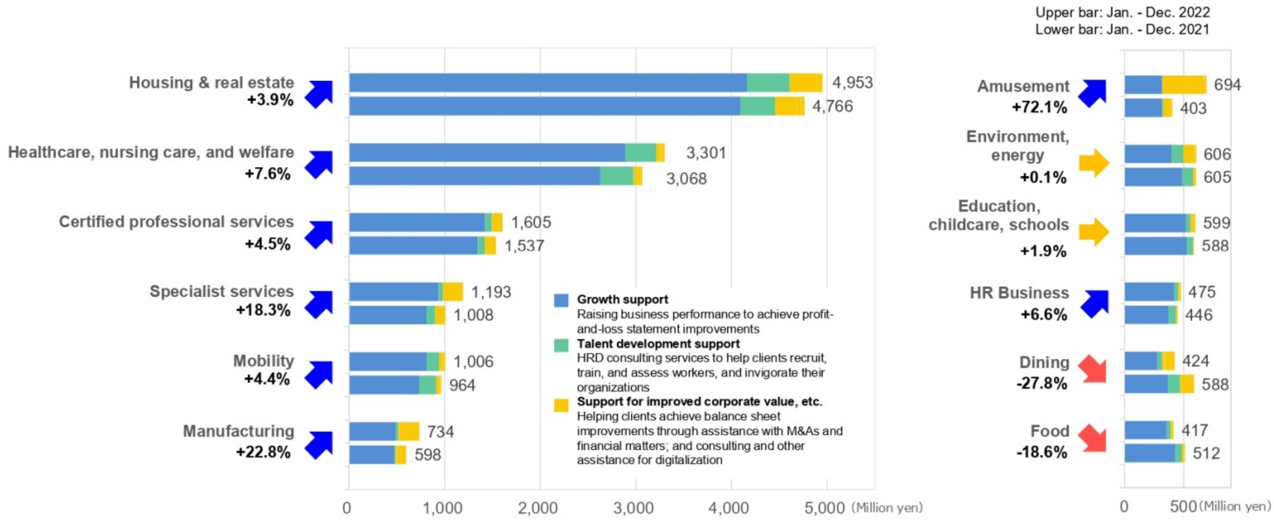
In addition, sales of seminars were almost flat until Q3, but the number of face-to-face seminars held increased significantly in Q4, and the unit price of seminars also rose, resulting in an increase in sales of JPY75 million in Q4 alone.

In addition, online ad listing sales and system development, which has been included in the others category since July, also performed well in the year.

1. FY2022 Financial Report

Funai Soken Holdings

(4) Results of Operations by Segment: Consulting—Sales by Sector



Figures show total sales of consulting contracts, management workshop subscriptions, and open seminars, grouped in accordance with the company's industry classifications, for Jan. through Dec. 2021 and 2022.

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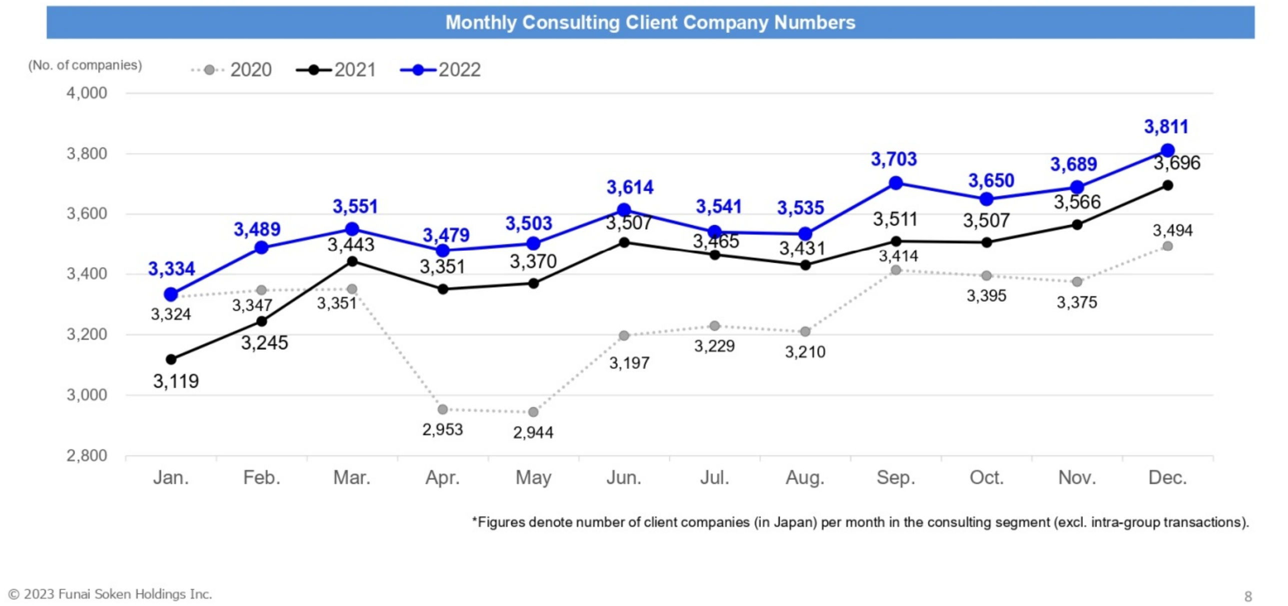
Next, here are the sales results by sector. Since I know you have always seen this material, I will touch on it briefly.

The main sectors of housing & real estate and healthcare, nursing care, and welfare grew by 3.9% and 7.6%, respectively, with particularly large increases in the manufacturing and amusement sectors. The yellow color shows the growth, and they are in the areas of support for improved corporate values and digitalization support. In the manufacturing sector, DX consulting performed particularly well, and in the amusement sector, a large number of M&A brokerage deals were recorded.

1. FY2022 Financial Report

(4) Results of Operations by Segment: Consulting—Consulting Client Numbers



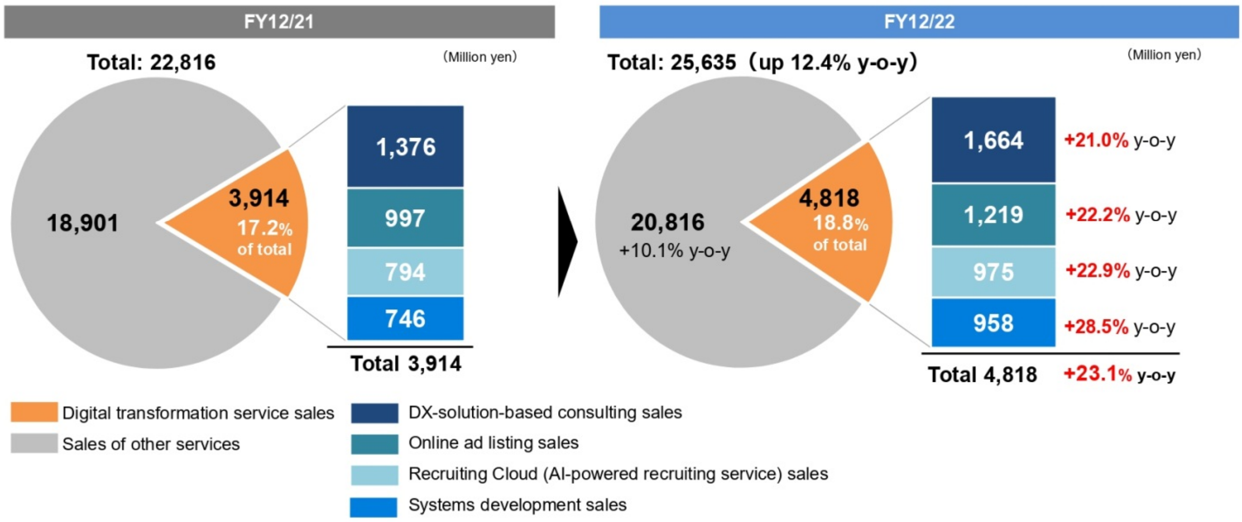
This slide shows the transition of consulting client numbers by month. In FY2022, the number of clients has been steadily increasing each month throughout the year, outperforming last year.

1. FY2022 Financial Report

Funai Soken Holdings

(6) Results of Operations in Digital Transformation Services

- **The group is investing significant effort into DX services, which grew more than 20%.**



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Continuing on, here are the figures we have been providing since 2021, which are cut out for DX-related services according to our definition.

The DX-related services that our group defines consist of four major categories: the first is Funai Consulting's DX-solution-based consulting sales; the second is Online ad listing sales, a web advertising management service; the third is Recruiting Cloud, an AI-powered recruiting service; and the fourth is system development sales that are developed in response to customer needs. Currently, the growth rate of each is over 20%, and we believe that this area will be the engine for future performance growth.

1. FY2022 Financial Report

Funai Soken Holdings

(8) Change of Representative Directors

To refresh the company's management, a new management framework is scheduled to be introduced as outlined below.

Representative Director (scheduled to take effect on March 25, 2023)

Name	New Title	Previous Title
Sakae Takashima (age: 65 y.o.)	**N/A** (resigning)	**Chairman and Group CEO**
Takayuki Nakatani (age: 54 y.o.)	**President and Group CEO**	**President & CEO**

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In the financial summary, a financial condition document is attached in the material; please refer to that document separately and I would like to skip it today.

In addition, as we announced in a press release yesterday, we would like to inform you that we are planning to change our representative at the annual shareholders' meeting to be held on March 25 and the subsequent Board of Directors' meeting, as you can see.

2. Forecasts & Shareholder Returns

Funai Soken Holdings

(1) FY2023 Earnings Forecast

- **Forecast for FY2023: 28.5 billion yen in net sales and 7.9 billion yen in operating income.**

	Consolidated mid-year forecast for FY2023			Consolidated full-year forecast for FY2023		
	2022 (actual) (million yen)	2023 forecast (million yen)	Change (%)	2022 (actual) (million yen)	2023 forecast (million yen)	Change (%)
Net sales	12,258	13,600	+10.9	25,635	28,500	+11.2
Operating income	3,749	4,000	+6.7	7,100	7,900	+11.3
Ordinary income	3,779	4,000	+5.8	7,197	7,950	+10.5
Net income	2,596	2,700	+4.0	4,990	5,500	+10.2

Sales Forecasts by Segment

Consulting	20,000 mil. yen
Logistics	3,900 mil. yen
Digital solutions	4,600 mil. yen

Operating Income Forecasts by Segment

Consulting	7,000 mil. yen
Logistics	500 mil. yen
Digital solutions	200 mil. yen

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Next, I would like to report on our earnings forecast and shareholder returns for the current fiscal year ending December 31, 2023.

For the current fiscal year ending December 31, 2023, we forecast net sales of JPY28,500 million and operating income of JPY7,900 million. Please note that we have changed the reporting segment from the current fiscal year, and the forecast by segment is based on the new segments.

Nakatani will explain the new segment later in the mid-range business plan.

2. Forecasts & Shareholder Returns

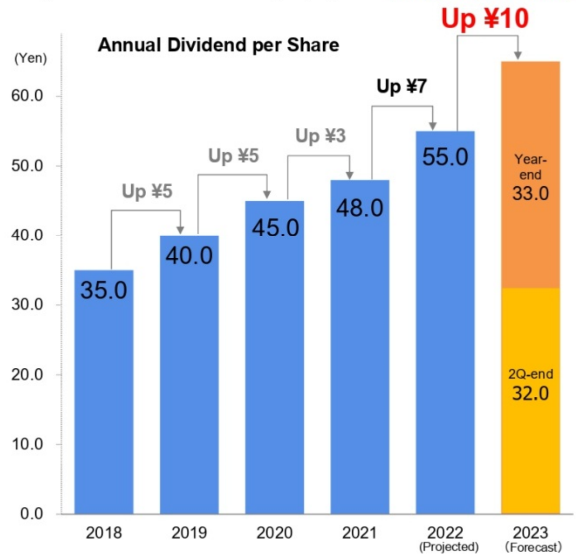
Funai Soken Holdings

(2) Annual Dividends

- **We plan to pay a total dividend of 65 yen per share for FY2023, comprising an interim dividend of 32 yen, a year.**

65 yen per share

	Initial forecast		Actual dividend	
Record date	Dividend (per share)	Details	Dividend (per sharer)	Details
FY2018 1.5-for-1 share split	33.0	2Q-end 15.0 Year end 18.0	35.0	2Q-end 15.0 Year end 20.0 *incl. special dividend of 2.0
FY2019	40.0	2Q-end 17.0 Year end 23.0	40.0	2Q-end 17.0 Year end 23.0 *Incl. a commemorative dividend of 3.0
FY2020	45.0	2Q-end 20.0 Year end 25.0	45.0	2Q-end 20.0 Year end 25.0
FY2021	46.0	2Q-end 21.0 Year end 25.0	48.0	2Q-end 21.0 Year end 27.0
FY2022	53.0	2Q-end 25.0 Year end 28.0	55.0	2Q-end 25.0 Year end 30.0 *Incl. a commemorative dividend of 2.0
FY2023 (Forecast)	65.0	2Q-end 32.0 Year end 33.0		



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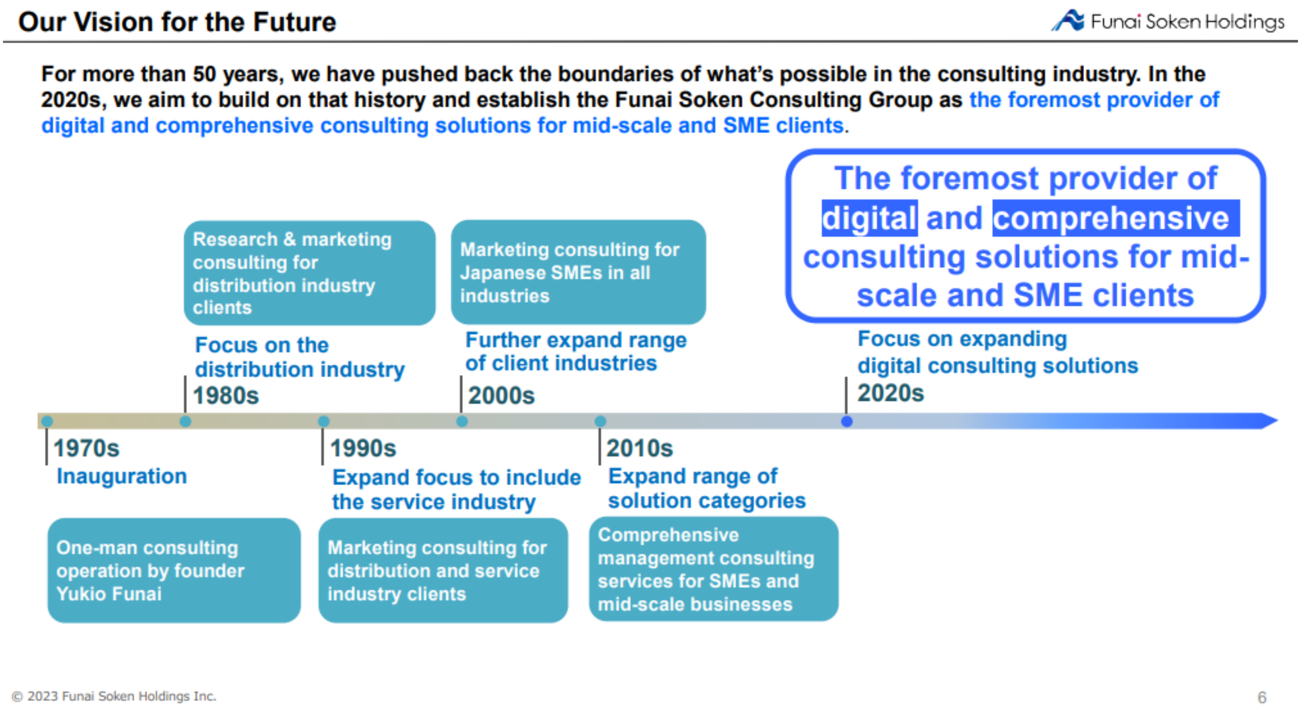
As the last part of my explanation, I would like to report on the dividend forecast for this fiscal year.

For the current fiscal year, we plan to pay an annual dividend of JPY65 per share, an increase of JPY10 from the JPY55 planned for 2022. The details of this shareholder return policy will be explained later in the mid-range business plan. If the plan is accomplished as planned, this will be the 13th consecutive year of dividend increases. That's all for my explanation. Thank you.

From now on, Nakatani would like to explain our mid-range business plan. So, President Nakayama, please begin.

Nakatani: Yes, thank you. I will now explain our mid-range business plan for fiscal years 2023 through 2025.

First of all, in announcing this mid-range business plan, we have given it the subtitle Sustainable Growth 2025, “SustainaGrowth 2025” in Japanese. I will explain the term Sustainable Growth later in the Group purpose section.



First of all, I would like to briefly explain our company's history.

This year marks 53 years since our company was founded in 1970. Over the course of its history, the Company has continued to evolve its core business of consulting over a span of approximately 10 years.

From a private consulting firm founded in 1970, we developed into a research and marketing consulting firm for the distribution industry in the 1980s, went public, and expanded from the distribution industry to the service industry in the 1990s.

In the 2000s, we became a marketing consulting firm covering almost all small- and medium-sized domestic companies, and in the 2010s, we became a holding company and evolved into a comprehensive management consulting group. In addition, we have established a foothold to expand our customer target to midsize companies.

And as we enter the 2020s, the digital field is expanding rapidly. Under such circumstances, our group is also aiming to evolve its business model as a digital and comprehensive management consulting group, while focusing on small and midsize companies.

The Funai Soken Consulting Group Purpose

Funai Soken Holdings

Companies that can achieve sustainable growth are those that can thrive and grow amid tumultuous change and uncertainty. We strive to deliver strong, sustainable growth for our clients and ourselves.

This image shows our operating companies as trees growing bigger and stronger in the sunlight of the Funai Soken Consulting Group Purpose. The Funai Way is the roots that keep our footing firm, and the Founder's Spirit is the life-giving water that feeds them.

Sustainable growth for more companies

We lead the way to a better future and a more productive society in which more companies can achieve growth in any conditions and people can reach their full potential

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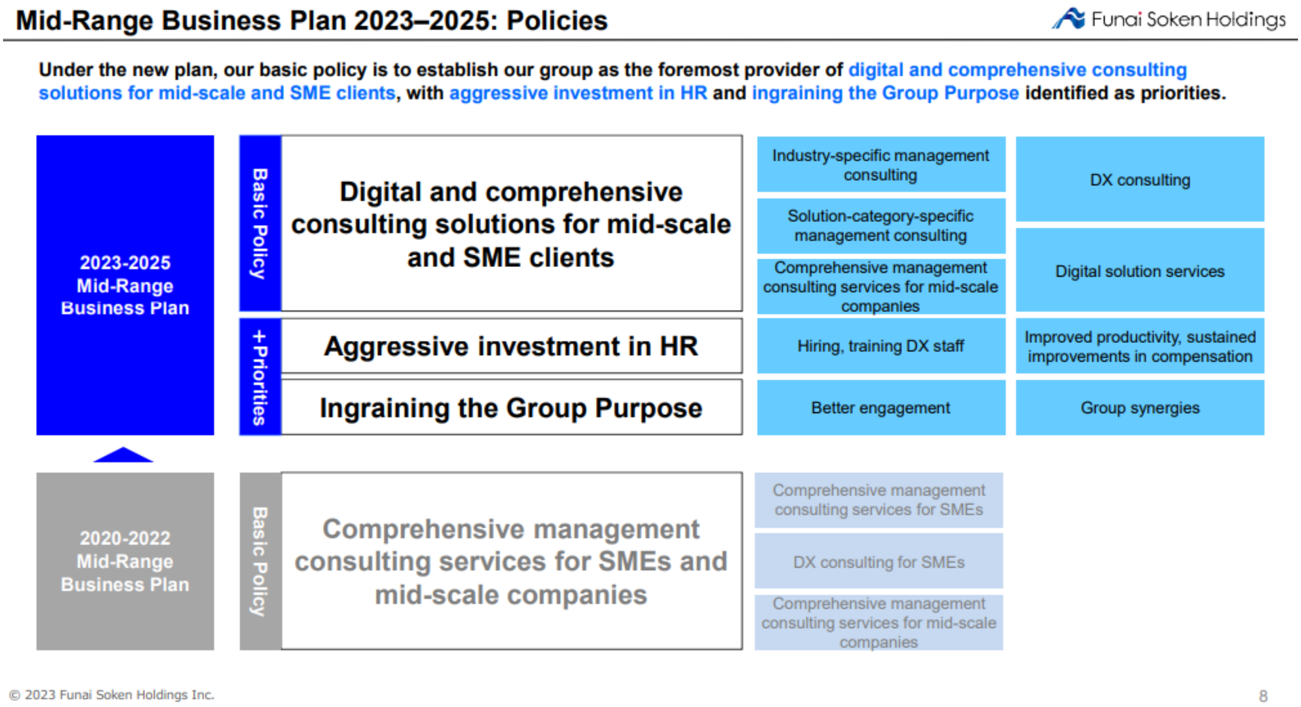
In addition, as we aim to further enhance our corporate value and contribute to society, we have established the Group purpose.

We define a Sustainable Growth Company as a company that can continue to grow strongly and sustainably even in times of uncertainty such as the present, and we have incorporated into this group purpose our aspiration to produce many such companies and to become such a company ourselves.

The picture on the left shows the business companies growing high and large toward the sun called group purpose. The Group core value, which we call the Funai Way, is the common root of the Group, and the founder's spirit, which summarizes the spirit of our founder, is a picture of the water source that supports the growth of the Group.



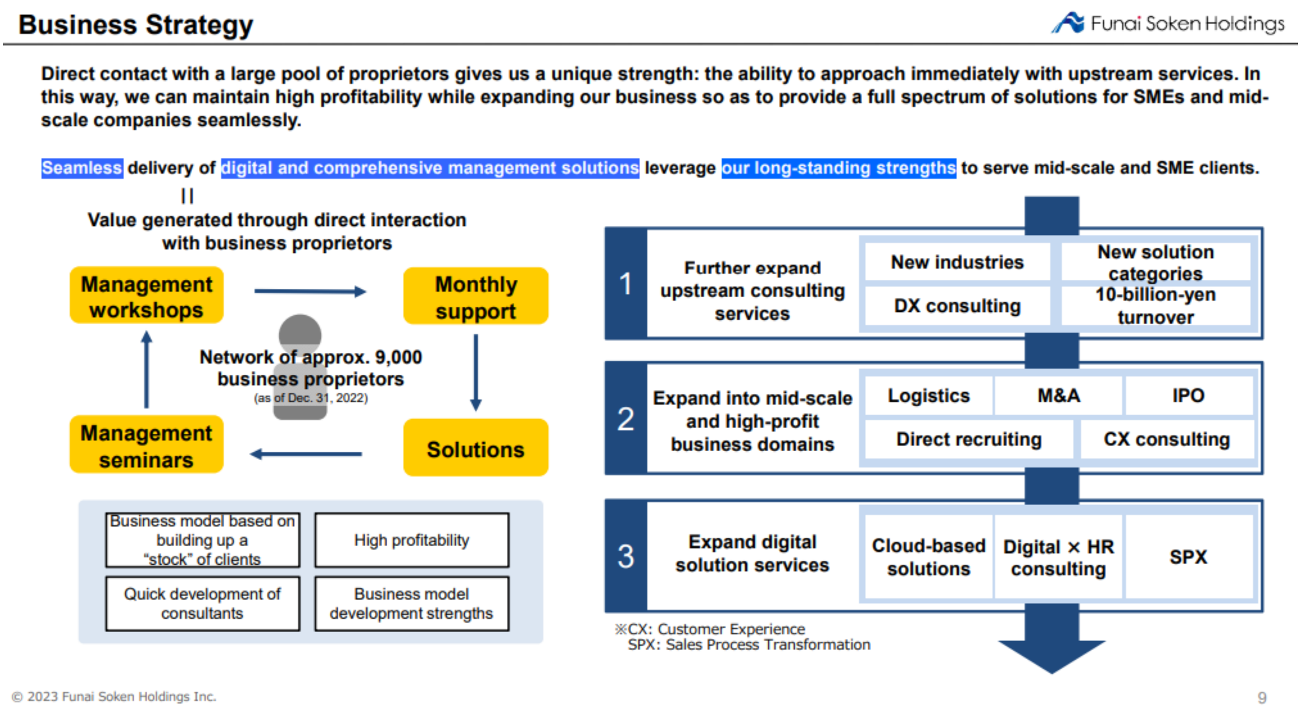
Next, I will explain the policy of the mid-range business plan.

Our basic policy is digital and comprehensive management consulting mainly for small and midsize companies, which is the main theme of the Group vision we have adopted this time. In addition, our priority policy is to actively invest in human resources and promote and spread the Group purpose.

In addition to the existing industry-specific management consulting, theme-specific management consulting, and general management consulting for medium-sized enterprises, we intend to develop DX consulting services to delve deeper into the digital domain, as well as digital solution services centered on Funai Soken Digital, which was established last year.

With regard to investment in human resources, in addition to recruiting and training DX human resources, we will realize productivity improvement and sustainable enhancement of compensation levels.

Regarding the penetration of group purpose, our policy is not only to improve engagement but also to expand group synergy as the Group's size grows in the future.

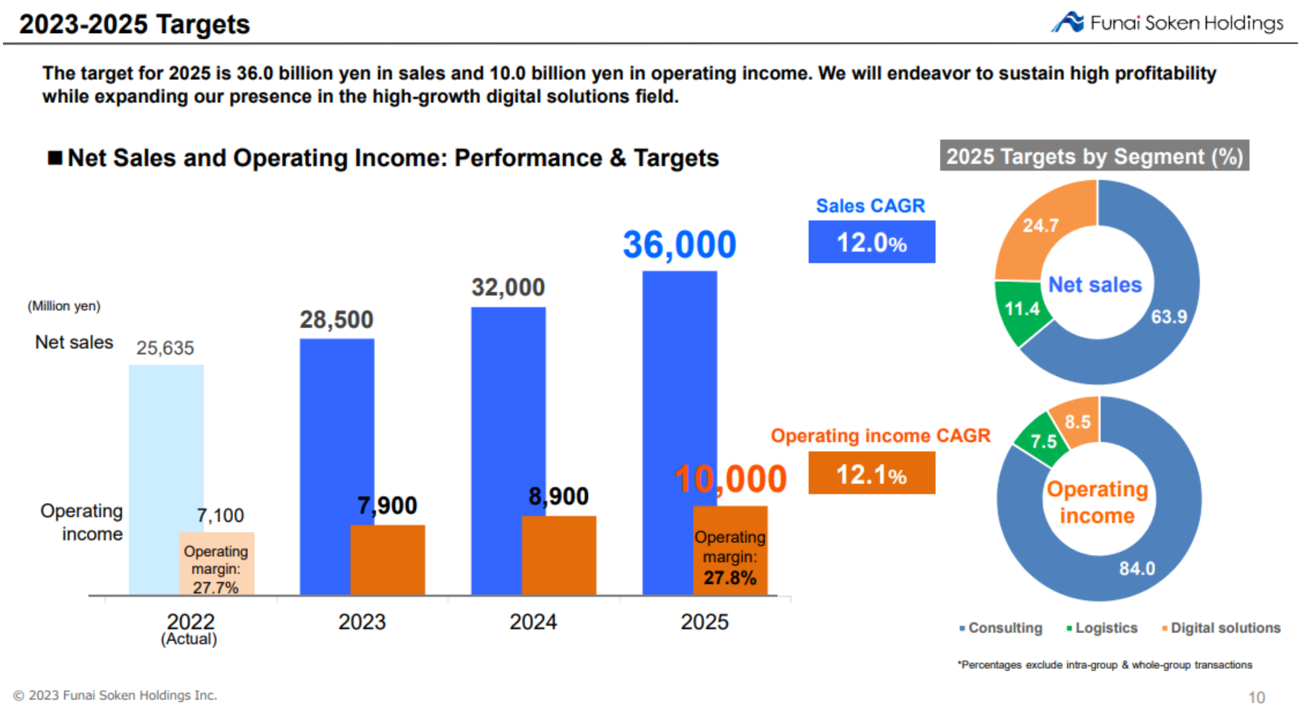


I will continue by explaining our business strategy.

First, the Group's strength since its foundation has been the value created by its extensive direct contact with management. Funai Consulting's signature consulting services, such as monthly support, management workshops, management seminars, and solutions generated from on-site information, all result from the virtuous circle created by direct contact with management.

The advantages are that we can receive orders directly from the upstream by having abundant direct contacts with management, we can achieve high profitability, we can form a stock-type business centered on monthly support services, and we can nurture young consultants quickly by working with them through management.

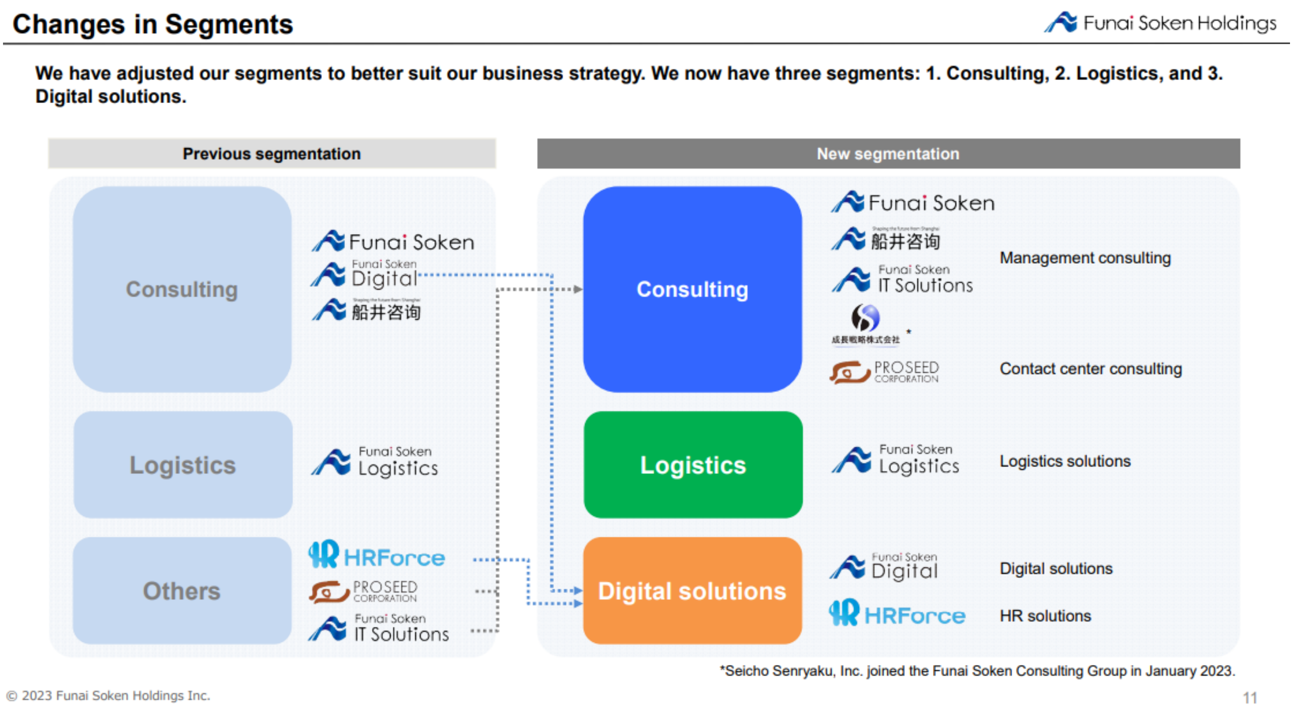
Another of our great strengths is our ability to develop business models that are close to management, quickly catch on to on-site information, and turn it into solutions. These strengths will allow us to develop comprehensive consulting services in line with our vision for the current era, and also to provide these services in a single integrated group-wide package.



Here is the three-year performance plan that will be realized by implementing these strategies.

In conclusion, we aim to achieve sales of JPY36 billion and an operating income of JPY10 billion by 2025. This figure, expressed as an average annual growth rate, is approximately 12% for both sales and operating income.

Basically, we intend to continue to grow our management consulting business steadily, but we hope that 25% of our sales will consist of the digital solution business by 2025.



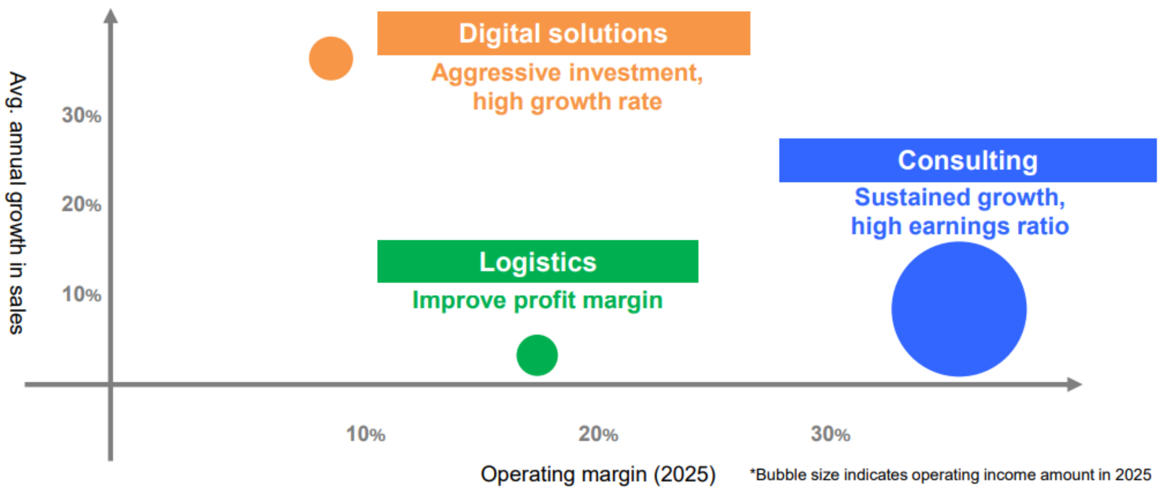
I would like to explain that we have decided to change the segmentation of the digital solutions business, which I mentioned now, at the time of the new mid-range business plan starting this fiscal year.

As you can see, until last year we had three business segments: management consulting, logistics, and other businesses; however, from this fiscal year, we have reorganized them into these segments: management consulting, logistics, and digital solutions. The reason for the reorganization into these three categories is to set the direction to be taken in the next three years for each project and to promote those projects.

Strategies by Segment (1)

Funai Soken Holdings

We are aiming to boost sustained growth without compromising the high profitability of our core consulting segment. We will also invest aggressively in the high-growth digital consulting market.



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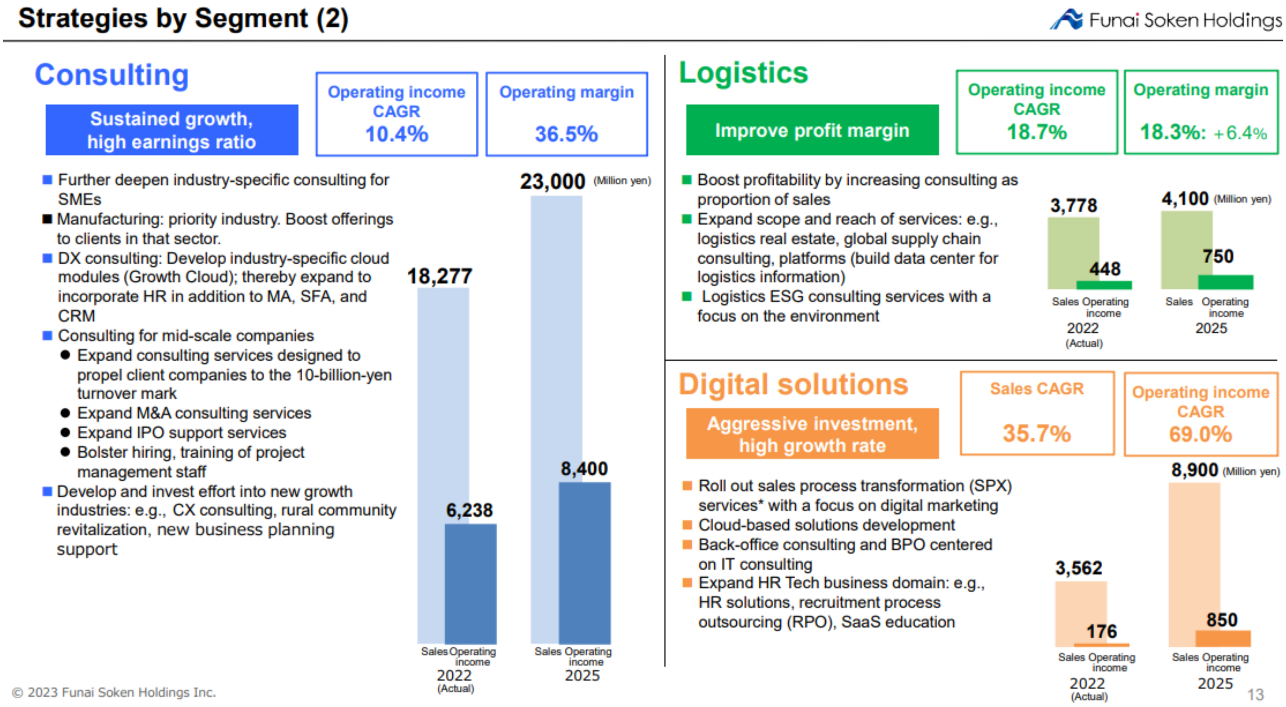
The table here shows the position that each business aims to achieve in the mid-range business plan. The vertical axis is the average annual growth rate in sales over the next three years. The horizontal axis is the operating margin targeted for 2025. The size of the bubble is an image of the size of the operating income amount.

The management consulting business will continue to grow sustainably and increase the earnings ratio. The logistics business is a segment that will improve profit margin more in the next three years. We envision the digital solutions business as a business that will drive the Group's growth rate through aggressive investment.



The respective business strategies are shown on this page. They are the sales and operating income plans for FY2022 and FY2025; the graphs of FY2022 are shown with retroactive figures for the new segment mentioned earlier. I hope you can see this as a growth rate in the new segment structure.

In the management consulting business, we will naturally further develop sector-specific consulting services for small- and medium-sized enterprises, but we would like to expand our focus for the next three years to include the manufacturing sector.

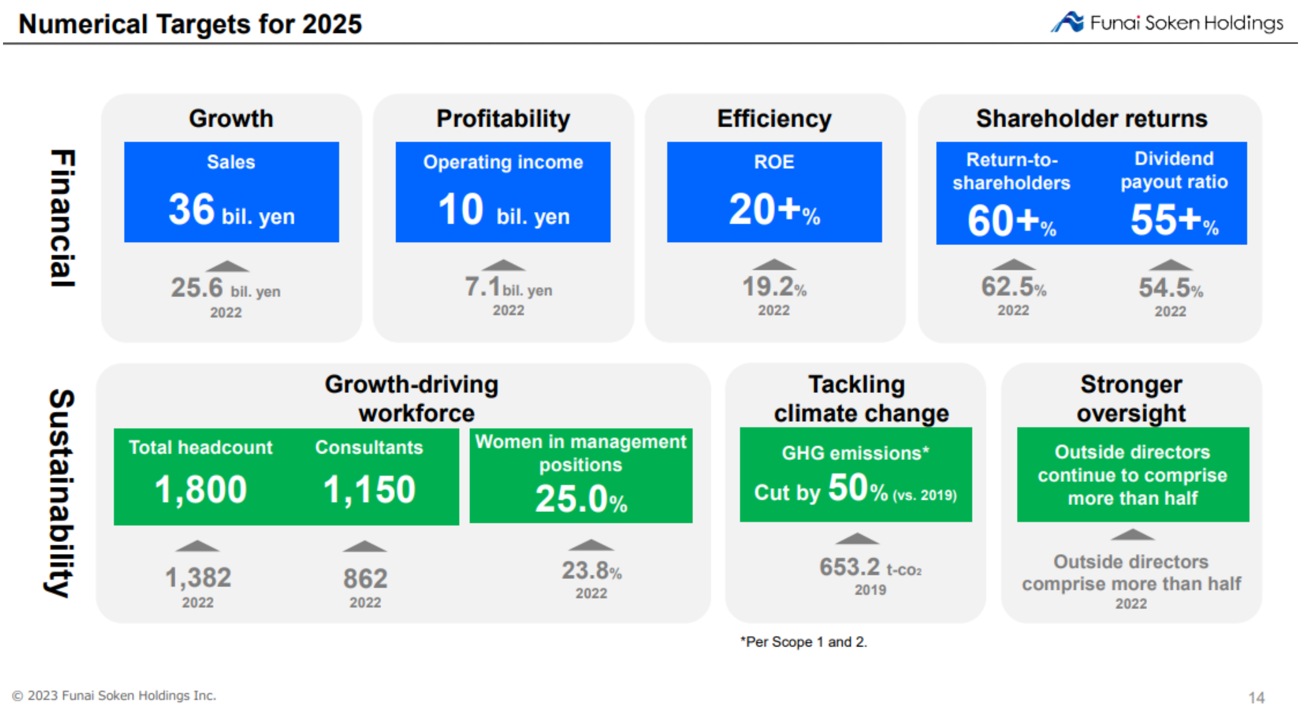
As for DX consulting, we will focus on the development of Growth Cloud, a sector-specific cloud module centered on Zoho, and we plan to expand marketing automation, sales force automation, and CRM, as well as the HR domain.

In consulting for medium-sized companies, we will focus on expanding the scope of M&A consulting and IPO support, in addition to expanding our consulting services for turning companies into 10 billion companies. Since it is essential to strengthen the recruitment and training of human resources for project managers, we will focus on this area as one of our HR strategies.

As for new themes, we will focus on CX consulting, as well as regional development and new business planning support.

In the logistics business, our direction is to increase the ratio of consulting services. In addition, the Company will expand into highly profitable areas, while at the same time engaging in ESG consulting as an area with high growth potential.

The digital solutions business is the business of TWO companies, Funai Soken Digital and HR Force, which were established in July last year. We are strengthening recruitment of engineers and developing a cloud solution business, sales process transformation business focusing on digital marketing in the digital domain, back-office consulting business, BPO business, and even business solutions utilizing HR Tech.



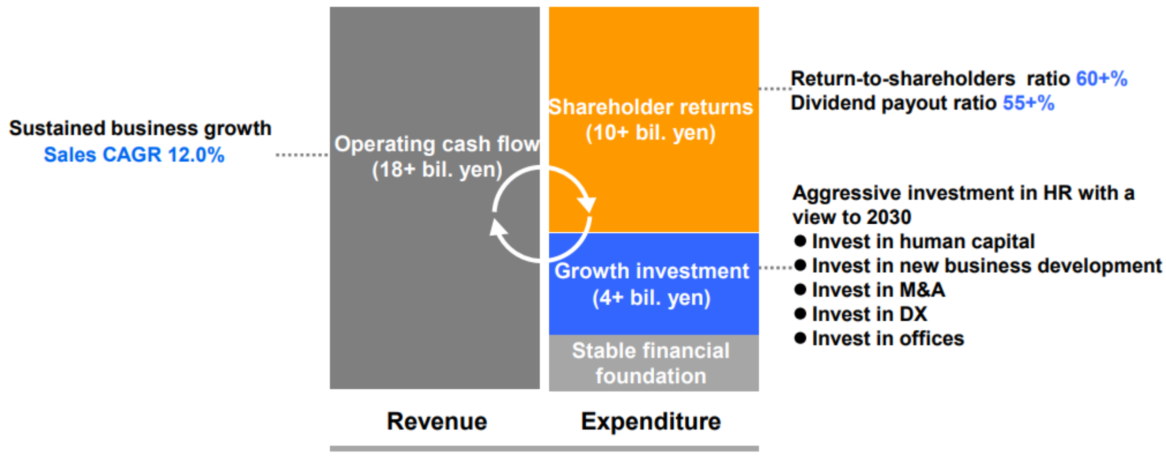
In promoting the above strategies, we have compiled a list of key quantitative targets for 2025. The information is largely divided into financial and sustainability goals, as you can see.

As for sales and operating income, as I explained earlier, I will explain the other targets in detail on the investment strategy, financial strategy, human resource strategy, and ESG pages later.

Investment Strategy & Cash Allocation

Funai Soken Holdings

We will allocate cash earned in operations between activities aimed at generating future growth and appropriate shareholder returns, thus improving shareholder value. We will also use the 2023-2025 plan period for aggressive investment in HR with a view to 2030.



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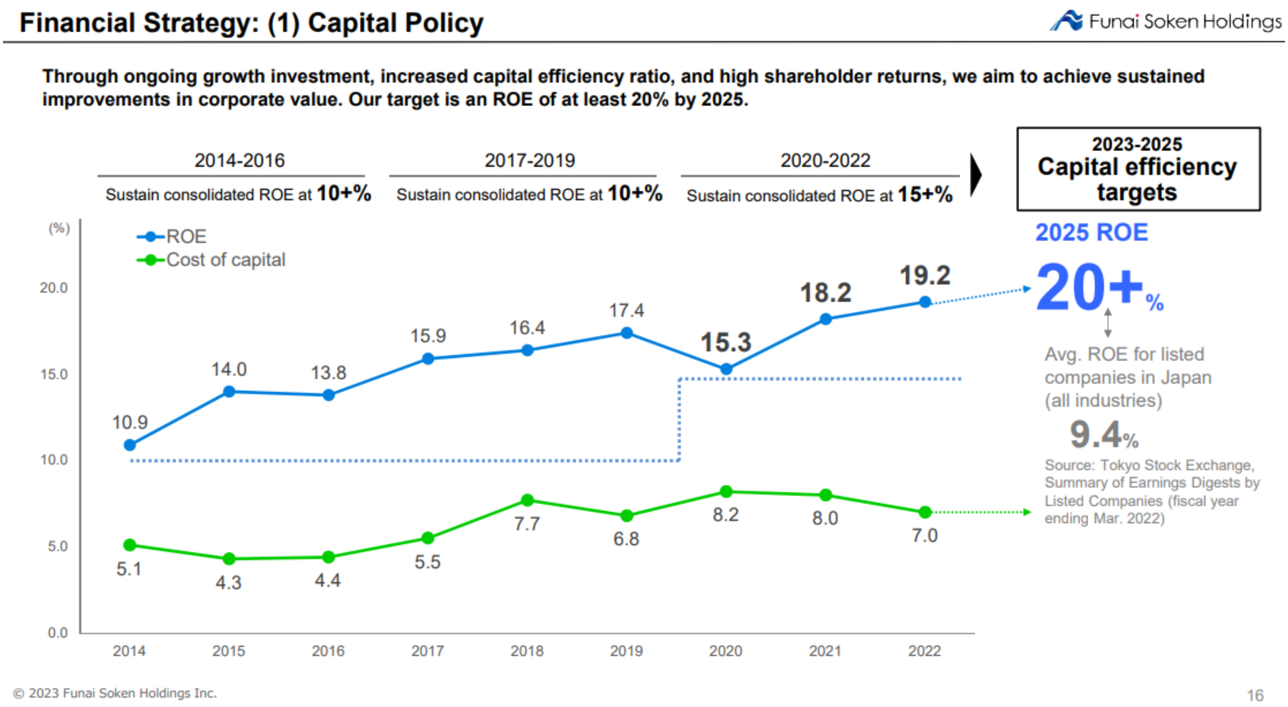
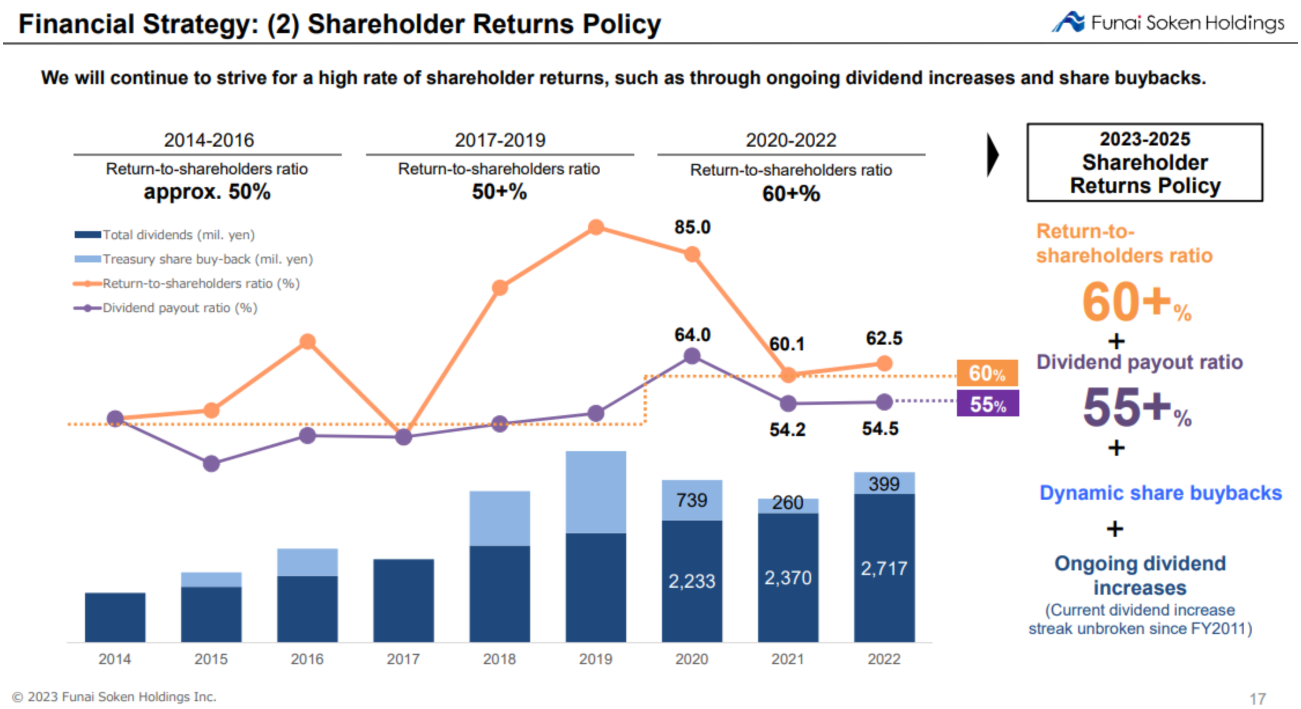
Regarding our investment strategy, we plan to generate more than JPY18 billion in operating cash flow to be obtained over the next three years. We plan to return more than 60% of this amount to shareholders, or more than JPY10 billion in shareholder returns, and more than JPY4 billion in other growth investments.

Growth investments will be allocated to human capital, new business development, M&A, DX, and office space, with a longer-term view to 2030, rather than to 2025.



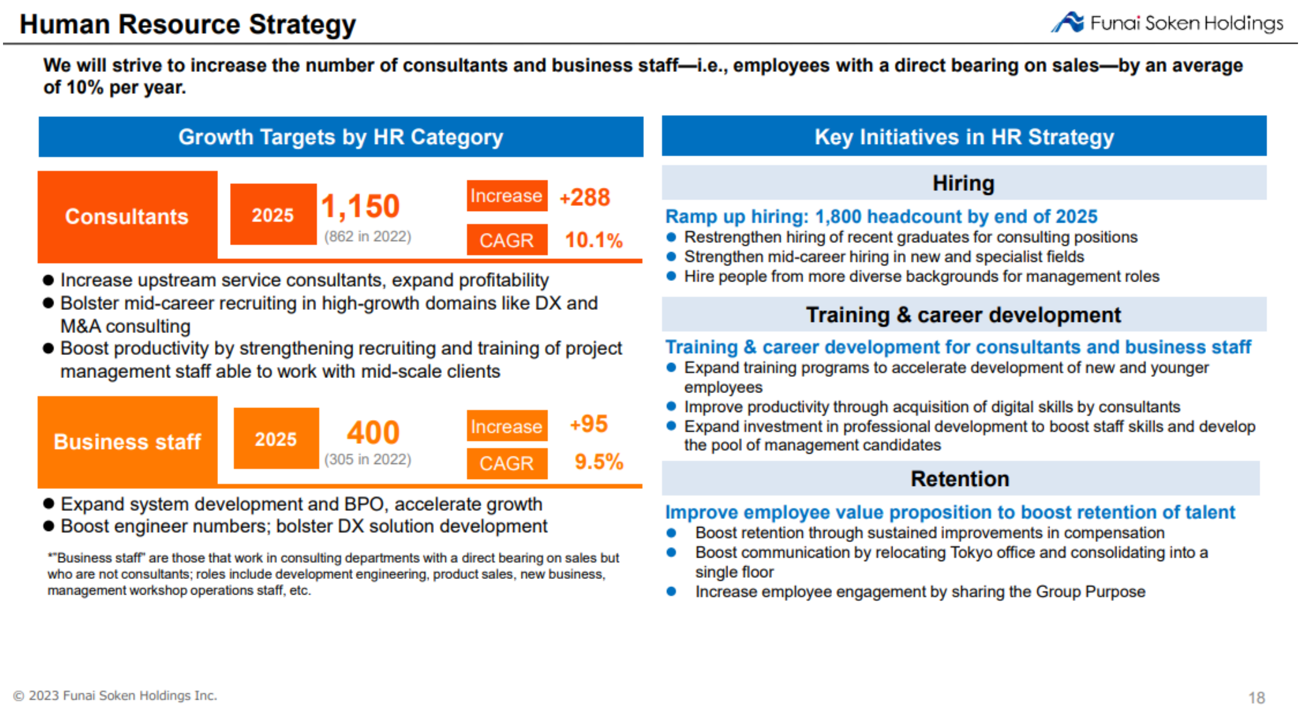
First, I will explain the capital policy of our financial strategy. This chart shows the target figures and actual results for the past three mid-range plans for nine years.

In the past three mid-range plans, our policy was to achieve an ROE of 10% or 15%; however, in the next three years, we aim to achieve an ROE of 20% or more by 2025. This level is more than double the average ROE of listed domestic companies, and we will further improve capital efficiency and increase corporate value.



Regarding the shareholder return policy, it is also presented in the same way: the policy this time is shown in comparison with the previous three mid-range plans for nine years.

Our shareholder return policy for the next three years remains unchanged from the previous mid-range plan with a total return ratio of at least 60%, but we have set a new target of a dividend payout ratio of at least 55%. In addition to this, we will continue to insist on flexible share repurchases and continuous dividend increases.



I will continue by explaining our human resource strategy. Regarding human resource strategy, we will once again take on the challenge of increasing the number of employees. We plan to increase the number of employees by an average of 10% per year, so that we will have 1,150 consultants and 400 business staff, for a total of 1,800 employees.

The term business staff, as written in the mid-range plan, refers to those in line departments directly related to sales, such as development engineers, product sales, new business personnel, and management workshop group operations, who are not counted in the consultant category. We expect that these human resources will contribute more to our growth potential by developing systems and DX solutions, especially in the digital solutions business.

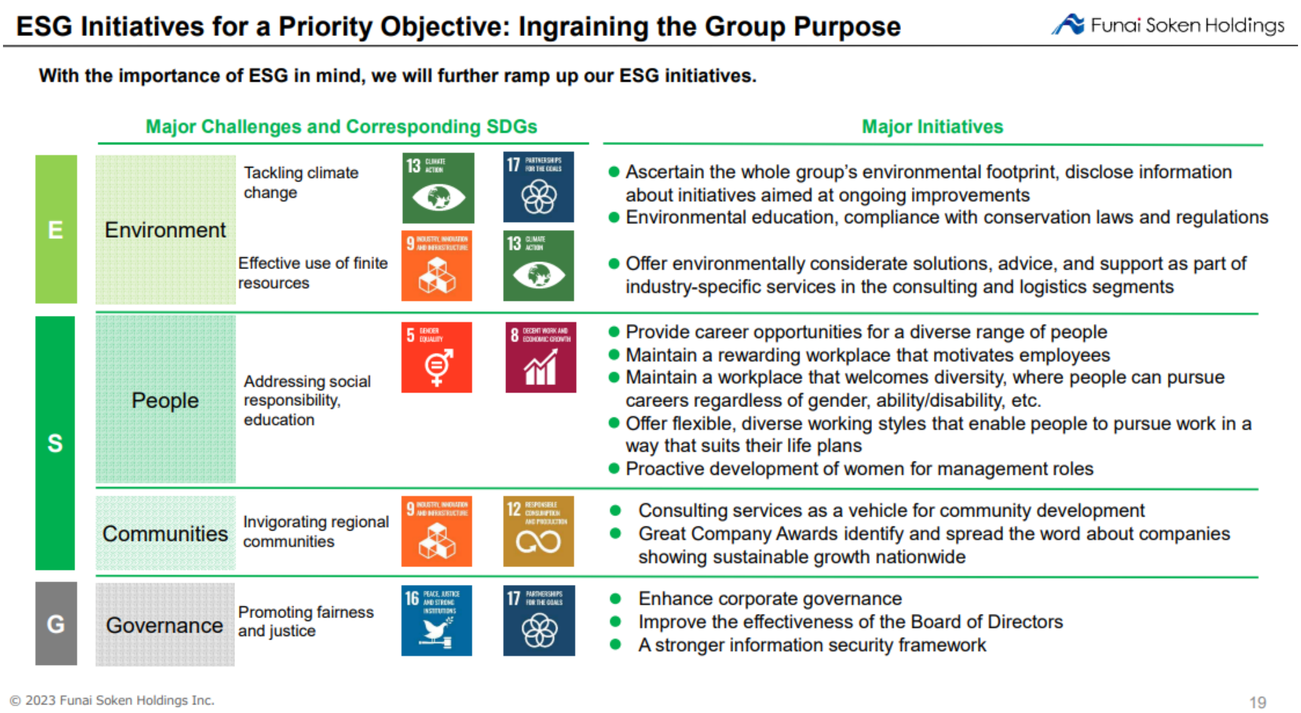
We have three key initiatives: hiring, training and career development, and retention.

With regard to hiring, we believe it is essential to strengthen the recruitment of new graduates, strengthen the recruitment of career consultants in new fields and specialized fields, and recruit and train management personnel to enhance the Group's capabilities.

With regard to training, we will continue to train young employees at an early stage, and along with the evolution of our training programs, we will expand our investment in the acquisition of digital skills, which we believe are essential for consultants, as we believe it is indispensable.

As for retention, we will move our Tokyo office to Tokyo Midtown Yaesu in the spring of next year as one of the measures for retention, as well as for the sustainable improvement of compensation levels, as announced yesterday on our website along with our financial results. This will be the first relocation of the Tokyo headquarters in 19 years.

The Tokyo office is currently quite cramped for employees, and the COVID-19 disaster has created communication problems. We believe that the relocation, consolidation to a single floor and the creation of a new way of working through the use of state-of-the-art offices will make a significant contribution to the retention of employees. In addition, as I explained earlier, we will strive to promote empathy for the Group purpose and aim to enhance shared values and engagement as a group.



To conclude my presentation, I would like to explain our ESG initiatives. The specific numerical targets are as indicated earlier in the quantitative targets. Environmental, human, community, governance, and representative issues and our efforts to address them are listed here.

As for our initiatives, as shown in the second item from the top and the second item from the bottom, in the environmental field, we will contribute through consulting in the management consulting business and logistics business. With regard to local communities, we intend to make our contributions through regional development and the Great Company Awards.

We look forward to your continued support and encouragement of our group. This concludes my explanation. Thank you.

Statement Regarding Use of These Materials

Funai Soken Holdings

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